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## Improving Employees Accountability and Firm Performance through Management Accounting Practices

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### Abstract

Evolution in the business environment will play a key role in spurring the growth of Small Medium Enterprises (SMEs) globally. Growing changes in business competition, daily operation, new strategy and technology are driving transformation in employees productivity and the future business environment that have significant impacts to organizations. Many organizations are demanding for proactive entrepreneurs with a dynamic team, who can run and steer their businesses to becoming more cost-efficient, which may lead to increased efficiency of firm performance. Literatures in management accounting recognize the important role of Management Accounting Practices (MAP) in Small Medium Enterprises (SMEs). This study examines the relationships between budgetary participation, commitment and performance measures through the tools and techniques of MAP in firm performance. A case study approach with heavy reliance on semi-structured interview was used, where 16 informants who are key decision makers and officer from different management levels were interviewed in the case study. Other sources of evidence have also been sought to enhance the desirability of the findings discussed. Our findings revealed that usefulness of MAP in the company improved employees' accountability and firm performance. It also showed that budgetary participation and commitment from employees' accountability have improvement activity when using MAP. This is directed towards helping others in achieving the desired business results by strategically positioning themselves into MAP in making informed decisions in their business undertaking. Further, the budgetary participation and commitment are predictors of managerial performance and accountability in perceived usefulness of MAP of firm performance outcomes.

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## 1. Introduction

Globalization has changed the environment surrounding manufacturing companies in Malaysia with an increase in uncertainty, intensified industry competition and advanced technology. Globalization has brought in new technology and made a developing country open to greater competition (Kassim et al., 2003). Globalization and liberalization impact in the new era of organization facing rapidly changes in technology and scarcity of resources; thus they must increasingly display to be innovative in order to be effective, grow and survive (Damanpour & Wischnevsky, 2006), better integrity in leadership (Simon, 1999; Peterson, 2004), differential style in business strategy in term of management accounting (Simon, 1990, 2000; Widener, 2007; Merchant & Otley, 2007). Management accounting is one of the main areas in accounting. It is a formal system designed for providing information to managers (Bowens & Abernethy, 2000). The usefulness of MAP would ensure the effective implementation of firm performance. Even more, with changes within the organization environment itself. Hence, by understanding the appropriate types of MAP in different situations managers will be able to improve their performance and the organizations as well (Chenhall and Morris, 1986). Johnson and Kaplan (1987) published their seminal book, entitled *Relevance Lost – The Rise and Fall of Management Accounting*, performance measurement gained popularity both in practice and research. In fact Neely (1999), having identified that between 1994 and 1996 over 3600 articles were published on performance measurement, has coined the phrase the performance measurement revolution. Today, performance measurement and performance management practices are commonplace in all sectors of industry and commerce as well as the public sector, including government departments, non-governmental organizations and charities.

The need for MAP information depends on the responsibilities of each manager (Chong, 1996). When the responsibilities of the managers are relatively easy to perform, then the activities can be well planned. However, when the responsibilities are not well understood, then the managers will need more information to perform their tasks. Hence, the performance of managers is closely related to the MAP which may assist managers to make adjustments and changes for an effective decision-making. According to Hartman (2000) and Kloot and Martin (2000), considerable attention is made to the behavioral and organizational effects of using accounting information for the performance outcomes and that managers and employees are actively seeking better accounting and financial information systems to better manage performance.

Despite considerable interest on MAP in manufacturing and other industries (Chenhall and Morris, 1986; Chenhall and Langfield, 1998; Gichaaga, 2013), relatively a few studies have been conducted on the improvement of accountability and firm performance on SMEs through MAP. Also, there has been little theory or empirical research that investigates how internal factors may enhance the perceived usefulness of MAP. The present case study aims to address this concern and to add to the limited body of knowledge. This case study examines the perceived usefulness of MAP in improving employee's accountability and firm performance in the case of SMEs. The result of this case study may serve as a reference for relevant parties such as top management and middle management to better align their efforts through enhancing their entrepreneurial skills, adopting of accountability to improving productivity of employees and knowledge on management accounting practices in enhance firm performances.

## 2. Literature Reviews

### 2.1. Budgetary Participation

A budget is a resource plan that matches inputs (eg. Staff, premises, equipment costs) to planned output and objectives and gives authority to spend (Mnoor and Othman, 2012). As such, budgets are critical to ensuring that resources are directed in accordance with agreed policies and priorities and in providing a basis for monitoring and accountability. Budget acceptance would be high if individuals participated in the setting of the budget (Drury, 2005). Budgetary participation has been identified as a key element in an organization's management control system that can effect managerial performance (Bownell, 1982; O'Connor, 1995; Mnoor and Othman, 2012). Chenhall and Bownell (1988) and Yahya, Ahmad and Fatima (2008) agreed that through budgeting process, subordinates gain additional information from others within the organization. This increase sub-ordinate's effectiveness. Discussion carried out with the superiors during the budgetary process will reduce a lot of ambiguity. Their goals and methods will be clearer

and hence, lead to high job performance. Budgetary participation is the means by which subordinates may influence managers' plans and their means of implementation thereby sharing the decision process with their superiors on matters that affect their areas of responsibilities (Brownell, 1982; Mah'd et.al., 2013)

## 2.2. *Commitment*

Employee commitment refers to the psychological attachment of workers to their workplaces (Allen and Meyer, 1990; O'Reily and Chatman, 1986). McClean and Collins (2011) found that employee's commitment contribute to the debate in the field of strategic human resource management on whether high-commitment human resource practices should be used across all employee groups within a firm. Further, McClean and Collins (2011) found that the relationship between effort and performance is contingent on the value of the employee group to firm competitive advantage, suggesting that companies may only want to expend the effort and resources on building a high-commitment human resource system for employee groups that are clearly tied to creating firm competitive advantage. Commitment to organization is positively related to such desirable outcomes as job satisfaction (Bateman and Staser, 1984; Porter and Steer, 1982; Ali et.al., 2010; Ahmed and Islam, 2011), motivation (Mowdy, Steers and Porter, 1979; Ahmed and Islam, 2011; Dixit and Bhati, 2012), and attendance (Steers and Rhodes, 1978; Mathieu and Zajac, 1990; Ahmed and Islam, 2011; Dixit and Bhati, 2012)

## 2.3. *Performance Measures*

Increasingly, performance measurement has been recognized as a vital tool to ensure SMEs are capable of measuring their activities. The results from these measurements will be considered in the planning process to help improve future performance (Mellor, 2001). The performance measurement is intended to improve the allocation of government efficiency and effectiveness through improved performance based decision making (Cavalluzzon and Ittner, 2004). According to Henri (2004), performance measures can be used for four different purpose: monitoring, attention focusing, strategic decision making and legitimization.

## 2.4. *Employees Accountability*

Accountability is the process of justifying actions towards internal and/or external stakeholders by providing information. Accountability is a major instrument of instilling public trust or confidence in any organization setup (Onu, 1988). Any organization that lacks a good system of accountability will hardly accomplish its goals. Accountability takes place through the process of accounting. The following definition of accounting is given in literature: "Accounting is a process which is essentially concerned with the provision of "relevant information for decision making", with the achievement of a "rational allocation of resources" and with the maintenance of institutional "accountability" and "stewardship"." (Burchell et al., 1980). This definition clearly states that the objective of accounting is to provide information relevant for decision making. The information provided depends on the type of accounting that is applied. According to Salvato and Moores (2010) and Weibenberger and Angelkort (2011), there are two major types of accounting: management accounting and financial accounting. The information provided by management accounting is for use within the firm. Management of a firm uses this information to monitor performance and to control the firm. Financial accounting information is used for justification towards external stakeholders. This information displays a firm's financial situation and performance.

## 2.5. *Management Accounting Practices*

Management accounting deals with the provision of financial and non-financial information for the management to ensure an efficient and successful performance of an organization (Madegowda, 2007). Management accounting identifies, measures, analyses and accumulates accounting information, which is communicated to the management who in turn plans, evaluates and controls the company's resources (Arora, 2009). It is a decision support system that serves the management at all levels (Granlund and Lukka, 1998) and can be regarded as a value-adding continuous

improvement process (Ederer, 2005). In general, it can be said that management accounting enables organizations to receive precise information about changes within individual departments and their effects on other departments and the organization as a whole (Posluschny, 2010). According to Kaplan (Kaplan, 1984), management accounting must serve the strategic objectives of the firm and it cannot exist as a separate discipline. The study and usage of management accounting practice must be tailored to a firm's specific objectives and thus cannot be universally applied whilst disregarding the firm's individual uniqueness.

### 3. Methodology

Qualitative method was used for this study. Qualitative method has become more widely accepted in business disciplines as a legitimate form of research design, especially in management and marketing and to a lesser extent in accounting, finance and economics. A description and interpretation of an individual's social environment or an organization's external context is imperative in order to achieve a gestalt perspective (Patton, 2002). Therefore, the main aim of qualitative research is to achieve an in-depth and holistic understanding of what is being studied; in other words, 'why they do what they do' (Scapens, 2006). Thus, generalizations on the findings cannot be extended to the population at large, but only to theoretical and analytical (Yin, 2009), and contextual generalizations, other generalizations are in accounting include statistical and constructive (Lukka and Kasanen, 1995). Lincoln and Guba (2000) advocated that qualitative method is used to gain insight into people's attitudes, behaviors, value systems, concerns, motivations, aspirations, culture or lifestyles. It's used to inform business decisions, policy formation, communication and research. Lincoln and Guba (2000) also stated that focus groups, in-depth interviews, content analysis, ethnography, evaluation and semiotics are among the many formal methods that are used, but qualitative method also involves the analysis of any unstructured material, including customer feedback forms, reports or media clips.

Due to the subjective nature of this study, it can be argued that quantitative research provides better findings (Brown et al. 2005). Furthermore, qualitative research can be used to explore several areas such as human behavior which cannot be quantified but yet important to an organization to understand. According to Jean Lee (2004), there are many reasons or advantages of using qualitative research in organizations and the main ones are: qualitative research provides a more realistic feel of the world that cannot be experienced in the numerical data and statistical analysis used in quantitative research. It provides flexible ways of collecting, analyzing, and interpreting data and information and the use of primary and unstructured data gives qualitative research a descriptive capability.

The procedure used for analyzing and interpreting the convergent interviewing data is such that, after each individual interview, the taped interview was listened to in order to clarify and expand the key issues into summary notes. The researchers then analyzed the data obtained through the interviews. The information gathered from the interviewees were recorded using audio recording devices and all the recordings were then transcribed as interview notes. Thus, to get more validity and reliability of the data from case company, researchers also analyzed the data using a qualitative analysis software program called NViVO 10. This software is a data management tool, which manage, code, analyze and model the data (Morse and Richards, 2002). All transcripts were keyed, in into the NViVO 10 software, where all statements in the transcript are compiled, reviewed and coded. After that, the data and information were matched with the selected indicators in the theoretical framework in order to identify which indicators are suitable as organizational performance measurement for the case study company.

### 4. Findings

Findings documented in this section are structured under the following three main headings: (1) Employees Accountability, (2) Firm Performance, and (3) Management Accounting Practices.

#### 4.1 *Employees Accountability*

Interviewee- Account and Finance Officer commented:

“When budget revisions are made, my manager will give a very sound/logical reason, and my manager always seeks my opinions and/or suggestions when the budget is being set”

Interviewee- Sales and Marketing Manager commented:

“I feel inspired to improve the efficiency of the operational management by providing more insight into the results of my own department”

Interviewee- Human Resource Manager commented:

“Employees in my department receive positive recognition for helping the department accomplish strategic goals, manager at my level are held accountable for results of their activities”

Interviewee-Administration Officer commented:

“My colleagues in my department receive positive recognition for helping the department accomplish strategic goals, and my manager periodically reviews my performance with me”

From the interviews, it was identified that employees’ accountability is associated with improvement on growth of firm performance processes. In addition to growth, other motives and symptoms of growth prompted action in initiating formal firm performance processes. The most common is employees’ performance, but, when viewed collectively, systematic practices used in the case study company, it was found that the financial/operating and sales/marketing rank firm performance in second position. Other shared purposes, which include employee reward systems, when employee recognition and incentive pay are viewed collectively together with customer satisfaction as the reasons for an initiating to increase on employees productivity and firm performance which are relatively unique to this case study.

The leadership style of the management accountant is identified as well as the contingencies that might influence the application of MAP. In addition, it is explained how case study company intends to get further support for MAP. Account and financial manager and operation manager only play a secondary role when it comes to MAP. The scope of work of the operation manager can be compared to that of an administration and the account and financial manager is responsible for financial movements. Account and financial manager does not only make reports and calculations for the case study company, but also organises daily work for the employees, conducts market research, collects financial and non-financial information, calculates prices, orders raw materials, hires and provides training for employees, finds business partners, and implements marketing campaigns. Thus, the management accountant is an all-rounder and is very familiar with all internal processes and knows exactly how to change something. Even though case study company is owned and managed by the same person, the leadership style of the general manager who performs MAP was still identified to be patriarchal. The general manager has the full power of decision and cares about his employees, however in return expects loyalty, faithfulness and conform to rules. All managers have full responsibility and thus have to control all processes carried out in the case study company.

#### 4.2 *Firm Performance*

Interviewee- Human Resource Manager commented:

“I need to set which program are priorities to all departments and also allocate the resources. Thus, my department also needs to set individual job expectations for all staff in headquarters and also for our branches”

Interviewee- Account and Finance Manager commented:

“Adopting of new program such as MAP will approaches or changing work processes in our daily operation more systematic and smart not only among our staff but also within our customers and suppliers”

Interviewee- Customer Service Officer commented:

“... trying to understand what’s on our products and uniqueness of our design to attract customer buying and how to make a continuous sale from our customer such as give special discount/ gift/ rewards for a customer. So, if your customer re-order or re-buy your product, then you need to know more about this customer and your relationship with this customer, to know whether it’s worth it.”

Interviewee- Design and Operation Manager commented:

“Rewarding and give a bonus to our staff give high impact to employees’ productivity and also increase our firm performance as well”

MAP in case study company revolves around the interpretation of financial and non-financial data. There are numerous concerns on the meaningfulness of the data derived from various sources in case study company. Although information in case study company is ubiquitous and serves different purpose of case study company operations, financial information needs to be carefully analyzed as it affects many other functions. Focus on costs in the operational decision-making process, such as involves considering different cost effects. Financial performance is considered to be the backbone of its future survival. The improved financial performance of case study company is made visible in its financial achievement. Case study company has enjoyed strong financial success over the past few years after adopting MAP in their daily operation. Thus, continues to look for ways to improve its organization performance and also improve their employees’ accountability through the engagement of MAP techniques such as BSC and TQM. In addition, case study company also integrated the administrative, financial and non-financial of company operation to enable the provision of quality product and design, and services to its customers with the hope that their organization performance can be further improved. These are among good performance appraisal approaches applicable in case study company that BSC and TQM promotes. We were indeed impressed with the initiatives offered by the case study company which we considered as an outstanding performance under customer perspectives.

#### 4.3 *Management Accounting Practices*

Interviewee- Account and Finance Manager commented:

“Using we adopt to use MAP our company, we can get information immediately reported when an event occurred, all reports from other department also can provided according to schedules”

Interviewee- Sales and Marketing Officer commented:

“Information relates to possible future planning such as if needs a historical information is most useful for your needs, mark the lower end of the scale, of benchmarking for future planning, example on strategy, price and etc.”

Interviewee- General Manager commented:

“When using this (MAP) practices we can get information on financial and non-financial factors, and all information will disclosed by using multiple techniques according to your needs”

Based on the interview session conducted with selected informants, was found that a number of MAP initiatives have been actively adopted to meet certain objectives in the case study company. One of the objectives was to improve the decision making process. Besides that, there is also a focus on improving communication priorities for tactical action regarding internal processes, administrative and budget functions, customer service programs and support programs in the case study company. In such cases, implementing internal strategic business approaches is deemed vital. Consequently, case study company has adopted MAP techniques such as activity based costing/management (ABC/M), balanced scorecard (BSC) and total quality management (TQM) as part of its cost management and other managerial endeavours. The MAP is very helpful to the case study company as it helps the key management to access relevant information for decision making purposes.



#### 4. Conclusion

The purpose of this case study was to examine the perceived usefulness of MAP in improving employees' accountability and firm performance. Several findings are noteworthy. First, we found that budgetary participation and commitment affect the perceived usefulness of MAP and improve employees' accountability and firm performance. Second, we found further evidence that performance measures provide an interactive effect on commitment and MAP. Thus, we can say that the increase in the perceived usefulness of MAP was catalyst associated with performance and accountability. This suggests that commitment to get information is important as more SMEs attempt to implement a system to measure performance and accountability. A commitment to getting information flows among the employees would enhance accountability and firm performance.

Given the wide array of business opportunities in case study company on SMEs industry, these issues are only going to become more salient over time. Hopefully a research of this kind may act as a catalyst for MAP to be implemented by other SMEs industry as a benchmark for their practice. Other than that, it should contribute to better decision-making at all levels of the case study company and other SMEs as well. Ultimately, it is our hope that MAP is positioned strategically in the case study company and other SMEs so that they will become robust and dynamic when facing challenging business pressures.

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